

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7671

BILL NUMBER: HB 2075

DATE PREPARED: Jan 25, 1999

BILL AMENDED:

SUBJECT: Increase excise taxes on alcohol.

FISCAL ANALYST: Kristin Breen

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill establishes the Underage Drinking Prevention and Education Fund to provide grants for prevention of underage drinking and for education programs concerning underage drinking. It increases excise taxes on beer, wine, liquor, and malt liquor. It provides that the revenues generated by the excise tax increases are to be deposited in the Alcoholic Beverage Commission's Enforcement and Administration Fund, the Addiction Services Fund, and the Underage Drinking Prevention and Education Fund.

Effective Date: September 1, 1999.

Explanation of State Expenditures: This bill requires the Commission for a Drug-Free Indiana to approve grants from the Underage Drinking Prevention and Education Fund. The Commission is staffed by the Criminal Justice Institute. Based on grant programs currently being administered by the Criminal Justice Institute, it is estimated that the annual administrative costs of running this grant program will be between \$80,000 and \$100,000.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; or (5) New appropriations. As of December 1998, there were 11 vacant positions. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Explanation of State Revenues: This bill increases the excise tax on beer, wine, liquor, liquid malt, and wort. It does not increase the excise tax on hard cider, which remains at \$0.115 per gallon. This bill also establishes the Underage Drinking Prevention and Education Fund. It provides that the additional revenue

generated by the tax increase is to be deposited into the Addiction Services Fund, the Alcoholic Beverage Commission's (ABC) Enforcement and Administration Fund, and the Underage Drinking Prevention and Education Fund. The distributions of each excise tax and the estimated annual increase in excise tax revenue are shown below. Although an increase in the excise tax rate may result in a decrease in the number of gallons sold, this analysis assumes that the number of gallons sold remains constant.

Beer or Flavored Malt Beverage Excise Tax: This bill increases the beer excise tax from \$0.115 per gallon to \$0.24 per gallon. The current and proposed distribution of the beer excise tax is shown in Table 1. The beer excise tax generated approximately \$13.8 million in FY 98. Based on the revenue forecast, it is estimated that an increase in the beer excise tax would generate an additional \$15.6 million in FY 2000 and FY 2001. Table 2 shows the distribution of the increased beer excise tax revenue in FY 2000 and FY 2001.

Table 1. Current and Proposed Distribution of the Beer Excise Tax (per gallon):

	Current	Increase	Proposed
State General Fund	\$0.04	-	\$0.04
Post War Construction Fund	0.0475	-	0.0475
Addiction Services Fund	0.02	0.09	0.11
Enforcement and Administration Fund	0.0075	0.0075	0.015
Underage Drinking Prevention & Education Fund	0.0	0.0275	0.0275
Total	\$0.115	\$0.125	\$0.24

**Table 2. Distribution of the Increased Beer Excise Tax Revenue
in FY 2000 and FY 2001 (in millions):**

	Avg. Annual Revenue	Est Add'l Revenue	Est Total Revenue
State General Fund	\$4.8	-	\$4.8
Post War Construction Fund	5.7	-	5.7
Addiction Services Fund	2.4	11.2	13.6
Enforcement and Administration Fund	0.9	0.9	1.8
Underage Drinking Prevention & Education Fund	0.0	3.4	3.4
Total	\$13.8	\$15.6	\$29.4

Wine Excise Tax: This bill increases the wine excise tax from \$0.47 per gallon to \$0.98 per gallon. The current and proposed distribution of the wine excise tax is shown in Table 3. The wine excise tax generated approximately \$3.4 million in FY 98. Based on the revenue forecast, it is estimated that an increase in the wine excise tax would generate an additional \$2.9 million in FY 2000 and \$2.7 million in FY 2001. Table 4 shows the distribution of the increased wine excise tax revenue in FY 2000.

Table 3. Current and Proposed Distribution of the Wine Excise Tax (per gallon):

	Current	Increase	Proposed
State General Fund	\$0.20	-	\$0.20
Post War Construction Fund	0.16	-	0.16
Addiction Services Fund	0.02	0.38	0.40
Enforcement and Administration Fund	0.04	0.04	0.08
Wine Grape Market Development Fund	0.05	-	0.05
Underage Drinking Prevention & Education Fund	0.0	0.09	0.09
Total	\$0.47	\$0.51	\$0.98

Table 4. Distribution of the Increased Wine Excise Tax Revenue in FY 2000 (in millions):

	Ave Annual Revenue	Est Add'l Revenue	Est Total Revenue
State General Fund	\$1.4	-	\$1.4
Post War Construction Fund	1.1	-	1.1
Addiction Services Fund	0.1	2.1	2.2
Enforcement and Administration Fund	0.3	0.3	0.6
Wine Grape Market Development Fund	0.4	-	0.4
Underage Drinking Prevention & Education Fund	0.0	0.5	0.5
Total	\$3.4	\$2.9	\$6.3

Liquor and Wine with 21% or More Alcohol Excise Tax: This bill increases the liquor excise tax from \$2.68 per gallon to \$5.60 per gallon. The current and proposed distribution of the liquor excise tax is shown in Table 5. The liquor excise tax generated approximately \$17.8 million in FY 98. Based on the revenue forecast, it is estimated that an increase in the liquor excise tax would generate an additional \$15.6 million in FY 2000 and \$15.4 million in FY 2001. Table 6 shows the distribution of the increased liquor excise tax revenue in FY 2000.

Table 5. Current and Proposed Distribution of the Liquor Excise Tax (per gallon):

	Current	Increase	Proposed
State General Fund	\$1.00	-	\$1.00
Post War Construction Fund	1.17	-	1.17
Addiction Services Fund	0.06	2.19	2.25
Enforcement and Administration Fund	0.11	0.11	0.22
Pension Relief Fund	0.34	-	0.34
Underage Drinking Prevention & Education Fund	0.0	0.62	0.62
Total	\$2.68	\$2.92	\$5.60

**Table 6. Distribution of the Increased Liquor Excise
Tax Revenue in FY 2000 (in millions):**

	Ave Annual Revenue	Est Add'l Revenue	Est Total Revenue
State General Fund	\$6.6	-	\$6.6
Post War Construction Fund	7.8	-	7.8
Addiction Services Fund	0.4	11.7	12.1
Enforcement and Administration Fund	0.7	0.7	1.4
Pension Relief Fund	2.3	-	2.3
Underage Drinking Prevention & Education Fund	0.0	3.3	3.3
Total	\$17.8	\$15.6	\$33.4

Liquid Malt or Wort Excise Tax: This bill increases the liquid malt or wort excise tax from \$0.05 per gallon to \$0.10 per gallon. All liquid malt or wort excise tax revenue is deposited into the state General Fund. The impact of this provision is not currently known. This information will be updated when it is received.

Table 7 shows the total estimated increase in excise tax revenue to be deposited in the Addiction Services Fund, the Enforcement and Administration Fund, and the Underage Drinking Prevention and Education Fund for a full-year. Due to a one month lag in the collection of the tax, there will be only nine months of additional revenue in FY 2000.

Table 7. Total Estimated Increase in Excise Tax Revenue Per Year (in millions):

Addiction Services Fund	\$25.0
Enforcement and Administration Fund	1.9
Underage Drinking Prevention & Education Fund	7.2
Total	\$34.1

Money in the Addiction Services Fund is used to fund programs that provide prevention and treatment services for addictions to alcohol, drugs, and gambling. Three state hospitals received revenue from the Addiction Services Fund for addiction treatment units in FY 97 and FY 98. Money in the Enforcement and Administration Fund is used solely for the enforcement and administration of the alcoholic beverage laws. Money in the Underage Drinking Prevention and Education Fund is to be used to promote comprehensive initiatives to prevent underage drinking and to provide education programs concerning underage drinking.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill establishes the Underage Drinking Prevention and Education Fund and provides that a portion of the additional revenue generated by the tax increase is to be deposited into that Fund. The Fund is to be used to promote comprehensive initiatives to prevent underage drinking and to provide education programs concerning underage drinking. School corporations and political subdivisions may apply for a grant from this Fund for services or activities related to underage drinking. If the average number of gallons of alcoholic beverages sold remains constant, the Fund could receive an estimated \$7.7 million per year. Money in the Fund at the end of the fiscal year does not revert to the state General Fund.

State Agencies Affected: Department of Revenue; Alcoholic Beverage Commission; Treasurer of State; Division of Mental Health; Criminal Justice Institute.

Local Agencies Affected: School corporations; Political subdivisions.

Information Sources: Catherine O'Connor, Criminal Justice Institute, 232-2560; Revenue Forecast.